EPISODE 1224

[INTRODUCTION]

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today is a Highlights show that's packed with value from different guests around a specific topic.

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[INTERVIEW 1]

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WS: Our guest is Christopher Calandra. Thanks for being on the show, Christopher.

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Christopher Calandra (CC): Thank you so much for having me. I was looking forward to this episode of your show. I've listened to several episodes and it's a great show. I'm excited to be on.

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WS: I appreciate that Christopher, you listening and being a guest. Christopher is the Founder and Principal of Elliot Wealth Management Services LLC, which has offices in Connecticut and Florida. He is a certified financial planner with over 26 years of experience helping entrepreneurs, retirees, and families achieve their financial goals and objectives. He has been involved in real estate investing for over 25 years and bought his first investment property at the age of 23. His portfolio includes single-family, multifamily, and commercial income-producing properties. His proficiencies include investing, remodeling, maintenance, and reselling. Christopher, thanks so much for being on the show. Will you give the audience a little more about who you are and what your focus is?

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CC: I'm a certified financial planner. My primary source of income and wealth-building is my firm, Elliot Wealth Management Services, where we work with individuals, families, and small businesses helping them win with money, especially on the investment planning and financial planning side but my background in trying to accumulate wealth myself includes a lot of real estate endeavors including building spec homes. I've joined about ten flips over the years. I have invested in commercial and residential real estate. Speaking to your audience is great

because what I've learned over my 26-year career is that most people that I've met that have accumulated wealth have at least a portion of that wealth in real estate. I had wanted to talk to you and your audience about seven wealth-building rules for real estate investors.

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WS: We were going to talk about the seven keys for real estate investors to build wealth. From your line of work that's a great topic because you are helping these individuals build this wealth and from so many different scenarios as well. I know that helps you to be extremely well versed and rounded to all these different aspects that people are in. They have so many scenarios that you have to help them with.

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CC: What you'll find is a lot of financial advisers in the marketplace will poo-poo the idea of investing in real estate. It's a little bit of competition and I think that's very small-minded but you do get that a lot. Whereas I view real estate as part of someone's overall wealth-building process. Not everybody wants to get involved in real estate and some people do but they want to be passive. Other people are anxious to swing a hammer but most people that I've met that have accumulated wealth will have at least a portion of their wealth in real estate. I think it's an important topic. It's also been important for my wife and me as we built wealth over these many years is I have three legs to the stool, if you will as I build wealth. There's the value in my business and then there's the value in my real estate investments. I'll throw my home into that category as well and then investments in your traditional markets, 401(k), IRAs, mutual funds, stocks, bonds, and college funds. I found for me the combination of the three is much stronger than if I had all my wealth in one of those three categories.

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WS: There's more diversification.

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CC: At times, you've spoken with lots of real estate investors. There are times when you might be getting knocked around in real estate. Prices could go down or you could have tenant-related issues. You could have a project that's over-budgeted. Any number of things can happen that might be negative at least in the short term but I have the two other portions of my wealth that might be behaving very differently at that moment. I think over the long-term, these multiple sources of income, multiple sources of wealth will lead to a better outcome for me as I move towards retirement, which is crazy to say I'm 48. I start to think about that more and more.

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WS: That's something we have to prepare for and hopefully sooner than later. Let's go into some of those seven keys for real estate investors to know to build wealth. I can't wait to hear it from your perspective too, since you've seen so many different scenarios.

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CC: There are seven wealth-building rules for real estate investors. Step one is to establish goals and this is a cliché if any of your audience and you probably have listened to shows or read books, this is very basic but it is so very important. I'm a big believer in you have to write down your goals and you have to have the ability to think both short-term as well as mid and long-term. You want to establish your goals. That's number one. Number two is you need to get prepared. You need to be educated. You need to do your homework. This applies to everything we just spoke about. If you want to be a real estate investor, if you want to put together a syndicate or be part of a syndicate, we could probably agree that you want to do your homework.

You could end up in a bad situation, you could make a mistake and knowledge is a great defender. You want to do your homework and be prepared. One of the keys to my success in real estate as well as in business is I tend to prepare well. That doesn't mean I haven't had bad real estate deals because I have and not everything goes perfectly but do your homework, get educated, know what you're doing, talk to people, read, attend seminars, go to workshops and be prepared. If you're investing in real estate, it is not something that you will likely be able to do successfully unless you put in the time, that's step two.

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WS: You've got to put the time in and no matter what endeavor it is if you plan to be successful.

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CC: Number three is to develop a wealth-building plan and I think this is a very important part of my seven steps. It's one that's overlooked. If we talk about real estate investing, have a wealth-building plan of what you want to buy. Do you want to be part of a syndicate? Do you want to be the head of the syndicate or do you want to be a member of the syndicate? Do you want to flip where you are actually at the property during the demos and fix up the property? Would you do flips more like I did, where I subcontracted that out and I had a partner that did a lot in the trenches work? You have to have a plan that works for you based on your skills and have an end game.

One of the things that I've experienced over the 26 years is lots of people think they want to get involved in something, and they want to buy something, own real estate, or buy an income-producing property but you often are going to be well-served if you figure out what

your end game is and to work backward. Do you want to hold property long-term or do you want to turn it in a relatively short period of time? Do you want to generate income? Do you want to be commercial or residential but you want to develop a wealth-building plan? Moving away from real estate is the same thing. If you're looking at investing for retirement, there are lots of vehicles that are available to you. You have 401(k), traditional IRAs, other IRAs, profit-sharing plans. There's a whole variety of tools if you will, vehicles that can help you fund future retirement needs.

You need to develop a plan on how you're going to fund them. How are you going to invest, how much you're going to put in, how much risk you're going to take? This may sound scary and I'm not trying to overwhelm your audience. It's really not that complex but you do want to develop a wealth-building plan. My wealth-building plan is that three-pronged approach. I want to increase the value of my business, number one. I want to increase the value and the performance of my real estate holdings. I want to manage my investments in traditional stocks and bonds very well so that I could drive good long-term performance. That's step three.

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WS: You're diversified and you're trying to nurture all three of those things to make sure they're all improving and increasing.

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CC: Some people, probably not your audience, don't want to invest in real estate. Maybe they should but some people don't want to do that. Other people don't have a small business as I do. Maybe they're focused on only one of the three or somebody else may have two of the three. You could put together the combination but you definitely want to develop a wealth-building plan. A lot of what we do for our clients here at Elliot Wealth Management is to help them figure out what their wealth-building plan is and then help them execute that where we can be helpful. Step number four is to build a team. In your episode, I think it was number 176 with Vinney, he talked a little bit about how you want to build your network because this is a team activity building wealth. I know in the episode you did with Vinney, he talked about finding a partner in real estate. He also mentioned an attorney. I know you had an attorney on and she was great.

You want to build your network. I know I'm being self-serving, but a certified financial planner is great to have on your team. I am great to have on your team but then also real estate agents, inspectors, and attorneys. You may have one attorney for real estate matters but you might have another attorney for other matters like will and estate planning, tradesmen, and lenders. One I don't think I heard mentioned on the show previously was to have a really good Certified Public Accountant or a CPA. If you're investing in real estate, if you're building wealth, having a good CPA is also a key part of your team. You can't do it all. You can't know everything.

Building a team helps you be prepared and helps minimize your mistakes and maximize good decision-making. That's step number four.

Number five is to track your progress. This is something that is very underutilized. I am a huge fan of keeping track of your work on a net worth statement. In the business world, that's called a balance sheet. There are ways you can do this technologically. On your Apple phone, there's an app that even comes standard where you could keep track of your net worth. I personally do it a little old school on a spreadsheet but basically what I do is list all my assets. I have listed all my liabilities and if I take my assets and I subtract from my liabilities, that tells me what my net worth is. The way we're playing the game, the reason why people invest in a syndicate is to build wealth and to make money.

Money is not the end-all and be-all, but that's what we're pursuing, it's building wealth. Like any game, you want to keep track of your progress and the way that you keep track in my mind is to keep track of your net worth statement. You could do it as frequently as one year. I wouldn't suggest doing it less than that. I'm a tremendous geek, as you probably could tell. I keep track quarterly and it doesn't take me much time because how often do the assets or the liabilities change? They don't change that much and it's all set up and I run the numbers every quarter so that I know if I'm making good decisions, it will be reflected in my increased wealth. It also highlights that there are only two levers that I could pull. I could either increase my assets or decrease my liabilities. Once your liabilities get to zero, then it's only one lever you could pull and that is to increase your assets.

The last thing I'll say about that is for geeks like me, for people that are trying to build wealth, they are out there entrepreneurially. They are focused on getting smarter, making good decisions, and partnering. It's tremendously motivating. When I can look at my net worth statement, I could go back a number of years and see how my wealth has increased. How I have more assets, how I have fewer liabilities and my net worth is growing. It may not be every single quarter but it's tremendously motivating to see it unfold as I have a bigger and bigger net worth.

We're on to number six, be diversified. My mantra has always been whether it was in my business, in my investing, or in my real estate investing. I never wanted to do anything that I would blow myself up. That's my home terminology. I never wanted to try and take down something that I could possibly choke on.

Step number seven is to be careful with debt.

[INTERVIEW 2]

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WS: Our guest is Jason Harris. Thanks for being on the show, Jason.

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Jason Harris (JH): Hey, thanks so much, Whitney. Glad to be here.

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WS: What about the CapEx plan like how did you budget for that and then also, I'd love to hear a little more about the financing too, how you – I mean, it's so creative, you were able to get both of those properties under the same loan, you did a bridge loan. Maybe you could elaborate on that a little bit for the listener that has not heard of that before and what that means, why that was important. Even to get the CapEx dollars in there as well.

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JH: Yeah, there are a few things about this that are really helpful I think for investors. One thing that comes to CapEx, it's all about ROI and which one – where can I put this money that would give us the best return on investments. The way I approach and look at it, if I had storage units to this facility, how much just rent and come in profit can I make by putting those in? What would be the cost? Hypothetically, let's just say it would be a thousand dollars per unit or 28-grand on a 28 unit like this, but the tenants would be willing to pay $50 a month, that would be $600 a year per unit and so if you take $600 and divide it by a thousand, which it would cost me, that's a 60% ROI.

How many people Whitney would like to get a 60% ROI on their money each year? That's a pretty good return. The other way to go about it is if I renovate an interior unit and let's just say it cost me $10,000 to make a really nice renovation and improvement, what would the ROI on something like that look like? $10,000 would possibly get me a 1050 a month rent rate. 1050 from the 700 is a pretty nice pop of $350 more per unit. Times that by 12, that's 4,200 a year divided by 10,000, that's a 42% ROI.

However, you have to have a down period where you're not collecting any rent. And so, if it takes four weeks perhaps to totally renovate it and then another week or two to get it filled, that six weeks without any income coming in at all. You take that away which let's just call it a thousand dollars really, it's 4,200 minus a thousand. So, 3,200 a year more divided by 10 grand, that's a 32% ROI.

As you look at these different profit centers, Whitney, which one works best first as far as how to spend the money? For me, the storage unit was a good opportunity. I have no downtime of not collecting rents inside. But it's a value-add to the tenants that I know that they'll pay for. That's how I really process it. What will give me the biggest return on my money first? And then

work it down the list from the highest profit return. Because I could do all of them, I just may want to start with the best ones first.

Typically, I find exterior improvements are a great way to get the best return because I don't have any downtime of the units not being able to collect rent and immediately improves the curb appeal and aesthetics of the tenants home that they're willing to pay more for so that after say, 30 days to 45 days of those improvements having been done, I can go back and say, "We have new owners and new management in order to improve this asset in ways to make your home nicer, we are going to have to get market-rate rents. With that, will come further improvements that we're doing," and I'll list those out. But in order to do so, we need to get these units closer to market-rate rent which we found to be.

And usually, that conversation goes a lot better because they see the new owners coming in and are already doing a lot to make their home a nicer place and tenants sometimes thank you for it, they say they knew that their rent was low. Obviously, you get some that are pretty upset. But more times than not, we're able to have those conversations and they may start out saying that they're going to leave. However, when they start shopping and trying to find something else, they realize, we really are asking about what's market. They realize how much cost it would be in order to move and they realize, these new owners really do care and are trying to do good by us and so they decide to stay.

I think we did pretty well, had I had too many leaves, we may have asked too much. Had I had no one left, I didn't ask enough. And so, getting five to seven I think was right around where we would have wanted it to be. So that we could take the additional CapEx from the lender to go in and have our team improve those units to see what the higher end of the market rate rent could be at that thousand fifty number that we filled them with and so that was one answer to your question.

I guess the other one is the bridge loan, why I like it so much is they vet the deal for the exit of what you believe the stable rent rates will be after you make the improvements and you give them your business plan of what you plan to do and what you expect that time frame to be. And so, this bridge loan was an 80% leverage option where we only had to put 20% down and furthermore because the lender paid our closing cost, we really only had to put 20% down.

And so, it was about 540,000 plus some change. I think it was about 550 overall, maybe that had to do a little bit with some of our due diligence costs but the partner put up the 550,000. I didn't put a dime into it with the expectation that he gets all of his money back before we split the equity and cash flow 50/50. And I told him my expectation was to be able to do that in 18 months even though it was a two-year bridge loan and so we're starting that. In fact, actually,

he's decided to sell. We are actually going to be selling it instead of refinancing only because he wants to take our equity and go and do it again in a bigger project so.

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WS: Nice, will you all1031?

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JH: In this case yes, we will. We got to justify long-term intent, which I think that we can so yes.

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WS: Any other ways that you've been creative about tax sheltering?

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JH: Yeah, thanks for bringing that up. As a previous financial advisor, I studied the wealthy often and learned to see different things that they were doing, and had an opportunity to sit in on some pretty advanced tax strategy sessions with some of the affluent families that we represented.

And one thing I learned, Whitney, is that the wealthy don't invest in real estate specifically for cash flow alone, which was my main driver. I thought it was their primary reason for investing in real estate.

But the number one reason I find that the wealthy invest in real estate is the tax shelter benefits. And so, this gentleman who I partnered with on this Ogden deal, for example, actually had sold a business for a significant amount, and with that came a hefty tax penalty obviously. And so, what I am finding, Whitney, is that if you are a real estate professional instead of a passive real estate professional, active versus passive on your tax transcript you can actually take depreciation loss from the real estate you own and use that depreciation against all income sources not just passive income alone.

And so, most people who I talk to are using depreciation on the straight-line method to shelter their cash flow from their real estate, and whatever they don't use, it carries forward to the future years. However, in the 2018 Trump tax law, bonus depreciation came into play and allows someone to accelerate the depreciation to get a significantly bigger benefit.

On this $2.7 million transaction, we are looking at a little over $1 million in the first year of purchasing it to take and get that $1 million against all income. And so, my partner on his percentage is taking his piece and using it to shelter some of the income he made from the sale of his business and that money is now more than $100,000 – Well, now, for his, it is about $235,000 tax refund that he is now able to go back and claim and obviously if you look at that

return just on his 550 that he put up for this, you know that is already 45% before you even look at cash flow appreciation and principal reduction of the loan.

So, he will see probably a triple-digit return just in one year with the way we are structuring it. And obviously, my return with not having any money tied into it is also quite significant. So, it is really just the time I am exchanging.

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WS: That is an awesome opportunity it looks like you've put yourself into it, Jason. I know that happens by accident I don't think. You're definitely very intelligent. You have studied this and have done very well on this deal and I am sure others also. Tell me though Jason, what's been the hardest part of this syndication journey for you?

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JH: I think the hardest part for most people is capital raising. The deal finding is also right there so it is hard to say which is which. I think though putting in the effort in time to find a deal knowing there is capital to back it that's obviously a really hard thing to do. So that is what I am going to stick with, I guess.

[END OF INTERVIEW]

[OUTRO]

0:23:19
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